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DOCUMENT RESUME

ED 408 774		SP 037 446
AUTHOR	Mitchell, Melissa, Ed.	
TITLE	Money Matters. Federal Financial Support for Special Education: What's the Right Formula? A Project ALIGN Issue Brief.	
INSTITUTION	Virginia Commonwealth Univ., Richmond. Commonwealth Inst. for Child and Family Studies.	
SPONS AGENCY	Office of Special Education and Rehabilitative Services (ED), Washington, DC.	
PUB DATE	Mar 96	
NOTE	11p.	
CONTRACT	H023A60114	
AVAILABLE FROM	Project ALIGN, Commonwealth Institute for Child and Family Studies, P.O. Box 980649, Richmond, VA 23298-0649.	
PUB TYPE	Information Analyses (070) -- Reports - Evaluative (142)	
EDRS PRICE	MF01/PC01 Plus Postage.	
DESCRIPTORS	Demography; *Disabilities; Disability Identification; Educational Change; Educational Legislation; Elementary Secondary Education; *Federal Aid; Federal Legislation; *Special Education; Trend Analysis	
IDENTIFIERS	*Funding Formulas; *Individuals with Disabilities Education Act	

ABSTRACT

This policy brief explores issues associated with the question of whether federal funds to implement the Individuals with Disabilities Education Act (IDEA) should be allocated on the basis of the number of children with disabilities or a percentage of each state's resident population of children. The report examines proposed changes in the federal formula (supporting and opposing positions), the projected impact of a formula change, impact on identification and services, and other potential adjustments to the formula. It notes a movement toward a census-based formula in the face of the sentiment that IDEA is overregulated and underfunded. Supporting arguments suggest that the census-based approach would create incentives for states to undertake reforms such as preschool and early intervention and provide disincentives for over representation of minorities in special education. Among opposing arguments are that a formula change would penalize states which have worked diligently to identify and serve all students with disabilities. Analysis of projected impact indicates that the new formula would result in 13 states (such as Florida and Massachusetts) losing more than $2 million, with other states (such as California, Idaho, and Arizona) experiencing an increase of more than 13 percent. A graph provides comparative figures for each state. (Contains 13 references.) (ZB)

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ED 408 774

Money Matters

A Project ALIGN Issue Brief March, 1996

Federal Financial Support for Special Education: What's the Right Formula?

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Money Matters

A Project ALIGN Issue Brief March, 1996

Federal Financial Support for Special Education: What's the Right Formula?

Should federal funds allocated to states to support implementation of IDEA be based on the number of children with disabilities or on a percentage based on each state's resident population of children?

The Individuals with Disabilities Education Act (IDEA) provides federal support to implement a free and appropriate public education to children with disabilities. In 1975, Congress authorized the federal government to commit up to 40% of the average regular education per pupil expenditure (APPE) to services for children with disabilities. Federal allocations under Part B of IDEA have increased steadily from $2.5 million in 1977 to $2.15 billion in fiscal year (FY) 1994. The Part B allocation increased from $71 per identified special education student in 1977 to $413 per identified special education student in 1994. Federal allocations under Part B have increased because of increases in the number of children identified as disabled as well as increases in the APPE.[1]

Federal allocations to states, however, have never approached 40% of the APPE. In 1978 and 1979, the allocation equalled the authorized percentages of 5% and 10% of the APPE, respectively. In 1980, however, the allocation was 12.5% rather than the 20% of APPE that was authorized. Thereafter, allocations expressed as a percentage of APPE have declined.[1] An allocation of 40% APPE in school year 1992-93 would have committed $9.7 billion of federal money to special education, over four times the amount actually dispersed.[1]

States are seeking state level remedies in response to the sentiment that IDEA is over-regulated and underfunded, particularly in the face of increasing costs for all types of public services.

The actual average cost to educate a disabled child is about twice the cost for a nondisabled child and that ratio has remained steady for most of the last 20 years. The proportion of special education expenditures covered by federal allocations varies widely from one state to another. The most recent data indicated the federal share is 10 percent or less in at least 30 states.[2,4,5]

Despite a shortfall in federal allocations for special education, the number of children identified as disabled has increased steadily and substantially. Between 1977 and 1994, the number of identified children has increased almost 45%. Further, the rate of increase has not slowed; in fact, the 4.2% increase between 1993 and 1994 was the largest ever and significantly exceeds the rate of growth in school enrollment. The increases in several disability categories have been particularly striking. Between 1977 and 1994, for example, the number of children with learning disabilities increased over 200%.

As a result of the federal government's failure to fully fund special education programs and the increases in special education identification, many states have begun to regard a reform of special education financing as essential. In the last five years, 18 states have implemented special education finance reform and 29 are considering major changes.[1,2] The primary reasons given for reform are the desire for more flexibility in providing special education services and the need to eliminate financial incentives that support unnecessarily restrictive placements. States are seeking state level remedies in re-

CONTENTS

Proposed Changes in the Federal Formula 2
Support for Changes 2
Opposition to Change 2
Projected Impact of a Formula Change 3
Discussion 4
Impact on Identification and Services 4
Other Adjustments in the Formula 5

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sponse to the sentiment that IDEA is overregulated and underfunded, particularly in the face of increasing costs for all types of public services."

Proposed Changes in the Federal Formula

Recent discussions regarding reauthorization of IDEA have focused attention on the formula used to determine each state's allocation of federal dollars to support special education services. IDEA Part B State Grant Program monies represent the bulk of the federal contribution. State grants are currently determined by a formula that multiplies the number of children with disabilities, age 3-21 years, times a specified percentage of the national APPE.

Support for Changes

In 1994, the U.S. Department of Education Office of Inspector General (IG) released an audit report sharply critical of the Department's current method of allocating funds for special education services on the basis of the number of identified students." The IG concluded that state counts of children identified as disabled were unreliable because (a) there is substantial variation across states in the percentage of children identified for each disability; (b) the counts yield percentages that are different from the rate of work-related disability in individuals age 16 to 64 years; (c) audits performed by the IG have identified inaccurate child counts in some instances; and (d) there are reports of technical and other problems with the procedures used to classify children into categories of disability. The IG investigation included discussions with representatives of states, local education agencies, and professional associations. The report concluded that special education funds could be allocated more objectively and equitably on the basis of population and poverty, a "census-based" approach to allocation. An adjustment for poverty was recommended because the IG concluded that there is an important relationship between disability and poverty. The report also noted that changing to a census-based formula eliminates the need for child counts and gives the Department of Education the opportunity to re-evaluate the need for states to report students by disability category. The IG report did not specify what percentage of the resident population should be considered disabled in a census-based formula.

> ***...Allocating funds to states based on census...would create incentives for states to undertake reforms such as pre-referral and early intervention and disincentives for over-representation of minorities...***

In 1995, the U.S. Office of Special Education Programs (OSEP), the office that administers the Part B formula grant program, also recommended adopting a census-based funding formula for federal allocations. The rationale offered for the change in the federal formula echoed concern that the current formula runs counter to widely accepted reform initiatives:

> Today the major policy concern is not that millions of disabled children are not identified or not enrolled in school. Critical issues, instead, are that too many children are served in inappropriately restrictive environments, and in some communities, that children - particularly minority children - are often inappropriately identified as disabled in order to generate funding to either remove them from regular classrooms or purchase extra services for them. The current federal funding formula can create incentives that add to these problems and create disincentives for those states that seek progressive solutions to them. Allocating funds to states based on census would create incentives for states to undertake reforms such as pre-referral and early intervention and disincentives for over-representation of minorities. Allocating federal funding to states based on census would also simplify administration of the program - reducing data collection burdens and avoiding the problems of inaccurate child counts."

The OSEP recommendation would not require states to adopt census-based formulas for the distribution of special education funds to local education agencies. It did, however, include a recommendation that the change in formula be accompanied by the replacement of the thirteen categories of disability now recognized under IDEA with one "functional" definition of disability, stating that the current requirement fosters a "narrow categorical approach."

In fact, federal law has never required schools to label individual students, only to report, by disability category, the number of children served. The Department collects the data to monitor the implementation of IDEA in the identification, evaluation, and service of children with disabilities in each of the individual categories. Without elaboration, however, the OSEP document argued that if only the formula changes, an inappropriate incentive to develop more expansive definitions of eligibility might result."

Opposition to Change

The Council for Exceptional Children (CEC) has taken the position that the current federal formula for allocating Part B funds should not be changed at this time.

While CEC is philosophically supportive of changing the formula to a more census-based approach rather than a child count, we oppose changing the formula during this reauthorization. A formula change could cause large shifts in the amounts of funds states receive to assist in providing services to children with disabilities. There would be some states that would lose funds and other states that would gain. Thus, CEC believes the possible benefits derived from a formula change do not outweigh the disruption that could occur if formula changes are sought. We also believe that a formula change may penalize states which have worked diligently to identify and serve all students with disabilities. We are further concerned that a census-based formula may lead to an under-count of the population of children in urban areas who are in need of special education services.[9]

Thus, despite philosophical support for census-based funding, CEC has opposed implementation of a change at this time because of the disruptions that would result. The CEC position does, however, share the Department of Education's interest in removing the disincentives to pre-referral practices created by a child count formula.[9,10]

Some opposition to census-based funding rests on the premise that it is unfair to states with higher identification rates. This position cannot be dismissed lightly; in at least one state, the courts have struck down census-based distribution of funds to local school districts. An Alabama Circuit Court ruled that the "total enrollment" method that was used to calculate state special education aid was "irrational and arbitrary" and in violation of the state constitution because school systems with higher percentages of special education students received less special education aid per pupil than districts with fewer such students.[11] A similar argument might be applied to differences among states.

Other problems may accompany a change to a census-based formula, particularly if such a change includes the elimination of the requirement to report children by disability category. Census-based funding may compound the problem of chronic under identification of children with emotional and behavioral disorders (EBD; designated as Serious Emotional Disturbance in IDEA) and mental retardation (MR). The national identification rate for children with EBD is less than 1% of the public school population, well below conservative prevalence estimates of between 2 and 3 percent.[12] The identification rate for children with MR has been declining steadily for years with no concrete evidence that the trend is based on actual reduction of the prevalence of MR. A switch to a census-based funding formula could further reduce the identification of students with EBD or MR, particularly in those states currently serving a relatively high overall percentage of children with disabilities.

Changing to a census-based formula may lead to a reduction in the amount of federal financial aid used to support the education of children with disabilities. If the funding is not specifically tied to identified children with disabilities, the commitment to use the money for special education services may be diluted. In a recent interview, Edwin Martin, a Commissioner of the former Federal Bureau of Education for the Handicapped, cautioned that, based on historical experience, when funds for regular and special education were combined to serve all students, there was a decline in services for children with disabilities. He noted that critical support for the original decision to separate regular and special education funding and to provide additional funding for special education was voiced by James Allen, former U.S. Commissioner of Education, who recalled a deterioration in services when regular and special education funds were merged in New York.[13] A census-based formula may signal to some states a retreat from the traditional federal role of fostering and protecting special education services.

We also believe that a formula change may penalize states which have worked diligently to identify and serve all students with disabilities.[9]

Projected Impact of a Formula Change

What would happen to allocations if the formula changed? An analysis was conducted to provide educators and policy makers with an illustration of the impact on individual states of a shift to a census-based formula. Several scenarios were investigated and the impact calculated for each state; approximate actual allocations and projected allocations based on each scenario were computed for school year 1994-95. Actual and projected allocations are based on the 1993- 1994 Part B child count and the corresponding allocation of $413 per child. Because funding provided under Chapter 1 (State Operated Programs) is not included, the total allocation actually received by a state in 1994-95 differs slightly from that entered in Table 1.

In the 1993-94 child count, 7.26% of the United States resident population of children, ages 3-21 years, were identified as disabled under IDEA. Table 1 illustrates the difference between 1994-95 allocations under the current formula (based on an actual count of identified children) and allocations based on 7.26% of the resident population of children in each state. Subsequent columns present the impact of a formula based on 6% and 9% of the resident population of children and pro-

vide a comparison with a slightly more restrictive, and a slightly more expansive, disability prevalence estimate.

As Table 1 shows, the impact of a change to a census-based formula would be significant for many states. Those states currently providing special education to less than 7.26% of their resident population of children would receive additional federal monies. Arizona, Georgia, Louisiana, and Michigan would each receive more than $5 million additional dollars; California's allocation would increase by almost $50 million! The District of Columbia would experience an increase of almost 300% in Part B funding although this is somewhat misleading in that DC obtains considerable Chapter 1 SOP money not included in Table 1. Thirteen states would lose more than $2 million including Florida (about $14 million) and Massachusetts (over $27 million). Allocations based on a disability prevalence of 6% of the states' resident population of children would relegate virtually all states to the "loser" category; only Vermont and the District of Columbia would increase their Part B funding. On the other hand, a formula based on a disability prevalence of 9% of the resident population of children would bring additional federal dollars to almost all states, excepting only Alabama, Massachusetts, New Mexico, and Rhode Island.

Thirteen states would lose more than $2 million including Florida (about $14 million) and Massachusetts (over $27 million).

Figure 1 illustrates the impact graphically as a percent change in the 1994-95 allocation based on a resident population formula with a disability prevalence of 7.26%. States are grouped into six change intervals ranging from -24% change to +319% change. About one-third of the states would experience an increase or decrease of less than 5% of their current funding level. States that might be described as "big losers" (experiencing a decrease of more than 11%) include Wyoming, New Mexico, Tennessee, Alabama, Florida, West Virginia, New Jersey, Connecticut, Rhode Island, and Maine. States that would be "big winners" (experiencing an increase of more than 13%) include California, Idaho, Arizona, Michigan, Georgia, Pennsylvania, and New Hampshire.

Discussion

Changing to a census-based formula may be expected to affect some states in significant ways. Even if the total amount of federal funding remained approximately at the present level, without additional provisions (e.g. a grandfather clause preventing a decrease in state allocations), several states would have to scramble to secure the necessary funds to preserve current services. For other states, the windfall might be experienced as an increase in the federal share of the financial burden of providing a free and appropriate public education to children with disabilities. While most states would welcome a reduction in the federally- imposed data collection burden, unless state allocation formulas change, such data collection would have to continue in most cases.

States that would be "big winners" (experiencing an increase of more than 13%) include California, Idaho, Arizona, Michigan, Georgia, Pennsylvania, and New Hampshire.

Impact on Identification and Services

The impact of a census-based formula on pre-referral practices, identification rates for students with diverse ethnic backgrounds, or identification rates within disability categories remains unclear. While such impact may be empirically investigated, few relevant data exist at present. Examining the effects over time in states that have adopted census-based formulas for the distribution of funding to local school districts would offer guidance regarding the wisdom of a change at the federal level. No comparable models are currently available for anticipating the effects of simultaneously changing the formula and eliminating the requirement that children be reported by disability category.

Experimental projects and systematic analysis of state and local data are required to determine (a) whether the current formula actually contributes significantly to the over- or mis-identification of some children as disabled, and (b) whether changing the formula actually increases pre-referral activities and decreases referral in the long run. With such information, policy makers should be able to remove any actual disincentives in the current formula and to demonstrate that an improved formula supports efforts to identify all, and only, those children who are disabled. Before a census-based formula is adopted, policy makers, epidemiologists, and the public will need to reach a consensus on what percentage represents an acceptable estimate of the prevalence of disabilities in the school-age population. Changes in the formula may need to be accompanied by other initiatives that strengthen general education capacity to accommodate a greater range of academic and behavioral diversity and to support best practices in the design and delivery of special education services.

Table 1.
Impact on States of Changes in the Federal Funding Formula

State[7]	Federal Allocation to States 1994-95		Difference between Actual and Estimated 1994-95 monies			
	Actual Based on children identified as disabled in FY94[1]	Estimated Based on 7.26% of Resident Population as Disabled[2]	Estimated Gain or Loss using 7.26% of Resident Population as Disabled[3]	Percent Gain or Loss using 7.26% of Resident Population as Disabled[4]	Estimated Gain or Loss using 6% of Resident Population as Disabled[5]	Estimated Gain or Loss using 9% of Resident Population as Disabled[6]
Alaska	5,929,441	5,698,361	-231,080	-4	-1,220,052	1,134,643
Alabama	40,450,459	34,505,237	-5,945,222	-15	-11,933,734	2,324,628
Arkansas	20,570,704	20,276,275	-294,429	-1	-3,813,452	4,565,174
Arizona	28,044,765	32,608,582	4,563,817	16	-1,095,524	12,379,097
California	218,740,494	254,711,392	35,970,898	16	-8,235,212	97,017,429
Colorado	25,819,934	29,031,425	3,211,491	12	-1,827,021	10,169,435
Connecticut	27,712,713	23,795,234	-3,917,479	-14	-8,047,231	1,785,511
DC	854,910	3,585,673	2,730,763	319	2,108,456	3,590,139
Delaware	5,129,460	5,383,321	253,861	5	-680,434	1,544,079
Florida	111,640,508	97,306,666	-14,333,842	-13	-31,221,776	8,987,590
Georgia	49,883,792	57,801,001	7,917,209	16	-2,114,370	21,770,341
Hawaii	5,833,625	9,241,637	3,408,012	58	1,804,091	5,622,950
Iowa	25,559,331	23,270,097	-2,289,234	-9	-6,327,846	3,287,897
Idaho	9,206,183	10,510,701	1,304,518	14	-519,653	3,823,612
Illinois	86,423,141	94,502,401	8,079,260	9	-8,321,983	30,728,596
Indiana	49,406,777	46,911,244	-2,495,533	-5	-10,637,154	8,747,658
Kansas	19,612,957	21,386,485	1,773,528	9	-1,938,176	6,899,215
Kentucky	32,840,934	31,320,028	-1,520,906	-5	-6,956,613	5,985,547
Louisiana	35,071,960	38,891,327	3,819,367	11	-2,930,367	13,140,429
Massachusetts	57,050,168	43,256,009	-13,794,159	-24	-21,301,400	-3,427,016
Maryland	38,506,468	37,870,439	-636,029	-2	-7,208,585	8,440,357
Maine	11,753,567	9,862,961	-1,890,606	-16	-3,602,359	473,244
Michigan	69,832,105	78,996,759	9,164,654	13	-4,545,528	28,097,761
Minnesota	36,363,411	38,001,018	1,637,607	5	-4,957,611	10,745,289

Missouri	45,519,208	42,726,375	-2,792,833	-6	-10,208,154	7,447,373
Mississippi	26,194,525	24,195,817	-1,998,708	-8	-6,197,982	3,800,290
Montana	7,385,266	7,333,948	-51,318	-1	-1,324,152	1,706,404
North Carolina	55,785,562	54,194,249	-1,591,313	-3	-10,996,926	11,397,392
North Dakota	4,932,459	5,493,392	560,933	11	-392,466	1,877,531
Nebraska	15,003,877	13,858,093	-1,145,784	-8	-3,550,908	2,175,577
New Hampshire	8,921,626	8,856,405	-65,221	-1	-1,602,283	2,057,388
New Jersey	76,615,630	58,116,370	-18,499,260	-24	-28,585,572	-4,570,543
New Mexico	17,833,340	14,747,712	-3,085,628	-17	-5,645,148	448,948
Nevada	10,169,712	10,525,483	355,771	3	-1,470,966	2,878,408
New York	143,254,419	137,300,198	-5,954,221	-4	-29,783,181	26,952,438
Ohio	88,832,170	89,724,063	891,893	1	-14,680,052	22,396,007
Oklahoma	29,399,405	27,547,436	-1,851,969	-6	-6,632,929	4,750,309
Oregon	21,597,009	24,391,881	2,794,872	13	-1,438,429	8,640,860
Pennsylvania	77,610,547	90,485,531	12,874,984	17	-2,829,116	34,561,599
Rhode Island	9,125,648	7,327,441	-1,798,207	-20	-3,069,912	-42,043
South Carolina	33,002,830	30,371,580	-2,631,250	-8	-7,902,350	4,647,890
South Dakota	6,280,904	6,484,117	203,213	3	-922,130	1,757,257
Tennessee	47,749,408	40,382,752	-7,366,656	-15	-14,375,233	2,311,854
Texas	163,614,080	159,392,532	-4,221,548	-3	-31,884,715	33,979,967
Utah	20,659,499	20,696,618	37,119	0	-3,554,856	4,997,465
Virginia	52,997,812	50,220,706	-2,777,106	-5	-11,493,096	9,259,262
Vermont	3,797,122	4,617,715	820,593	22	19,171	1,927,318
Washington	39,923,471	42,918,991	2,995,520	8	-4,453,230	13,281,890
Wisconsin	40,286,498	42,189,096	1,902,598	5	-5,419,477	12,014,034
West Virginia	17,586,779	14,481,426	-3,105,353	-18	-5,618,659	365,402
Wyoming	4,967,977	4,426,568	-541,409	-11	-1,309,656	519,504

Table Notes

[1]Equals the number of students identified under IDEA in each state X $413 (the allocation per student for the year 94-95)
[2]Equals 7.26 percent of the state's resident population X $413; 7.26 is the national percentage of the population that is identified under IDEA. Thus, this column represents the amount of money the states would have received for their IDEA students in 94-95 if the formula were changed
[3]Equals how much money the state would have gained or lost had the population-based formula been used for 94-95
[4]Equals the states gain or loss as a percentage of their actual allocation in 94-95
[5]Equals how much money the state would have gained or lost had the population-based formula of 6% of resident population been used for 94-95
[6]Equals how much money the state would have gained or lost had the population-based formula of 9% of resident population been used for 94-95
[7]Information may be misleading for states with large numbers of students served through Chapter 1, State Operated Programs (e.g., the District of Columbia)

Other Adjustments in the Formula

As indicated by the IG report, a change to a census-based formula could be accompanied by other adjustments. The IG has stated that a census-based allocation which includes adjustments to individual states based on poverty "would provide each state with an equitable share of Special Education funds." The rationale provided for this position is that high concentrations of poverty have been associated with greater numbers of children being identified as disabled; therefore, high poverty areas should be targeted for more intensive and earlier interventions. The IG report's assertion that poverty is an "independent measure of the need for special education services," however, may be challenged by advocates or state representatives. Some states may respond that the recommended changes do not support their historical choices regarding the appropriate percentage of children to be identified as disabled. Furthermore, the poverty adjustment appears to conflict with the definition of learning disabilities, the category that accounts for over half of the children identified under IDEA. Children whose learning problems are primarily the result of environmental, cultural, or economic disadvantage are explicitly excluded from identification as students with learning disabilities. Finally, federal Title 1 programs already allocate supplemental funds to high poverty areas, and an IDEA which anchors the prevalence of disabilities to poverty could be seen as redundant.

As a part of any proposal to change the federal funding formula, educators and policy makers must come to terms with the fundamental issue: How much money will be available to support special education services to children with disabilities? Changing to a census-based formula may be perceived as a means to reduce or as accompanied by a reduction in federal financial support. Federal allocations have never approached the levels of funding intended in the 1978 authorization, and education and advocacy organizations will likely resist any change which does not include efforts to live up to those earlier promises.

...policy makers, epidemiologists, and the public will need to reach a consensus on what percentage represents an acceptable estimate of the prevalence of disabilities in the school-age population.

Controversy will continue to accompany the discussions regarding the manner in which federal dollars are provided to support states' efforts to implement the ambitious mandates of IDEA for all children with disabilities. Systematic analyses of the goals, assumptions, and actual effects of proposed changes are needed to ensure the effective, efficient allocation of public monies and continuing public support for services for children with disabilities.

Project ALIGN:
"Supporting Data Based Decision Making To Align The Intent and Implementation of IDEA With the Goals of National Education Reform"

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Note: This Issue Brief was supported through a grant from the U.S. Office of Special Education and Rehabilitative Services (HO23A50114). Points of view or opinions expressed in this paper do not represent the official agency position of the U.S. Department of Education.

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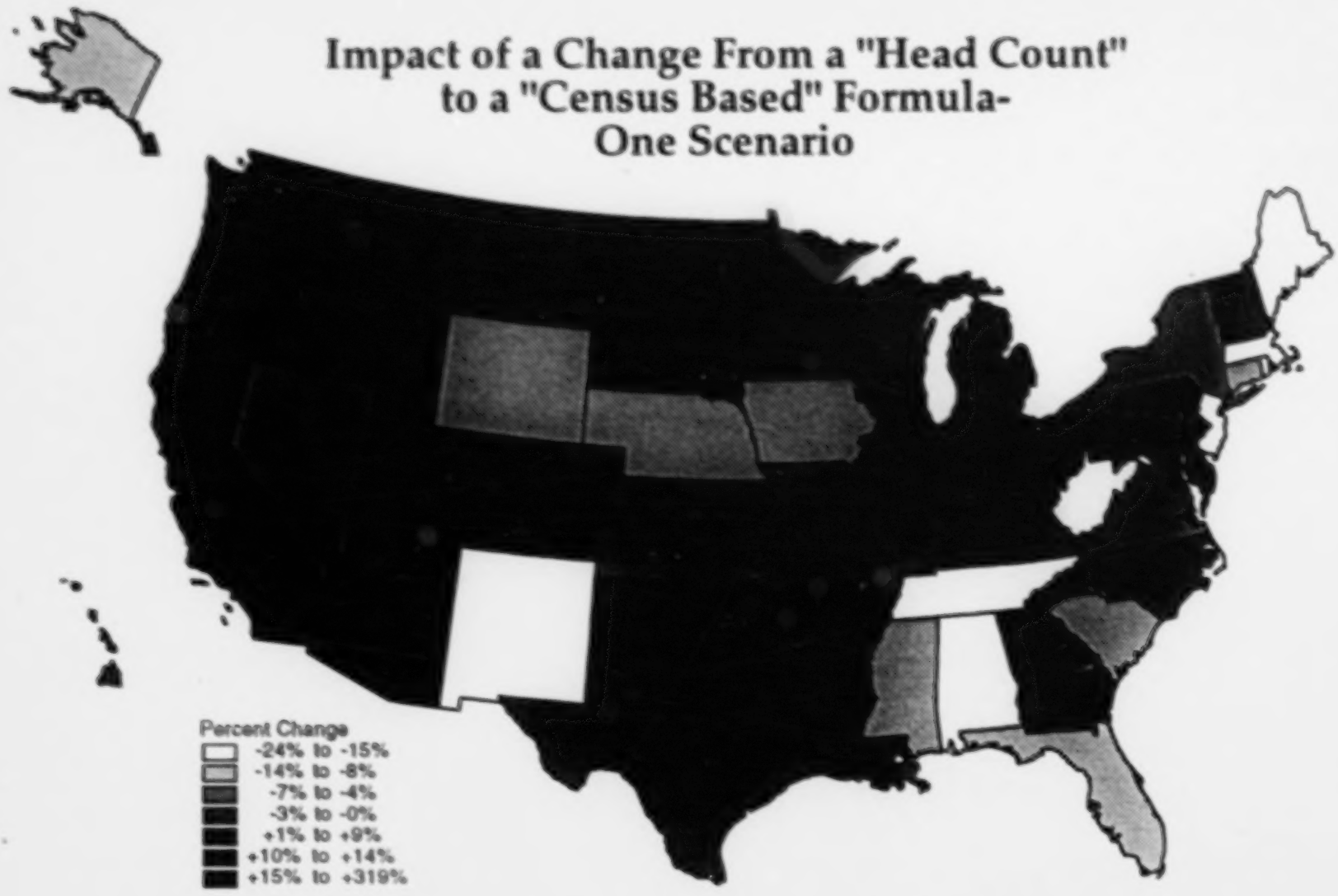
Impact of a Change From a "Head Count" to a "Census Based" Formula- One Scenario



Notes- 1. Intervals represent ranges of percent change in state allocation from FY 1994.
2. Census based formula reflects 1993 resident population average of 7.26% students with disabilities.

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